

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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March 5, 2009

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## **SUBJECT: HUMAN RESOURCES CASH CONTROLS AUDIT**

### **Introductory Remarks**

In compliance with Article V, Section 6 of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed an audit of the Human Resources Department (HR). Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

### **Background**

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

### **Objectives, Scope and Methodology**

Our overall objective was to determine whether cash handling controls practiced by the department effectively safeguard cash. Specific audit objectives were to determine whether:

1. The HR department properly maintained its Bank Account/Trust Fund.
2. The HR department properly maintained and secured its petty cash fund.

We reviewed internal controls over cash for the period of April 1, 2008 through June 30, 2008. Our audit included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other audit procedures considered necessary.

### **Conclusion**

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash. We determined that:

1. The department did not properly maintain its Bank Account/Trust Fund.
2. The department did not properly maintain and secure its petty cash fund.

We identified procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on and discussed our observations with management on January 22, 2009. The department's responses to our recommendations are included in this report.

### **Findings and Recommendations**

#### **Finding: Management of the Petty Cash Fund needs to be improved**

According to the Internal Controls and Cash Manual 2008 Version (ICCM) chapter 2 no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. Chapter 4 notes that a department employee shall complete a petty cash voucher in permanent ink, stating the date, purpose of the expenditure and the amount to be expended. Then an authorized department employee, of a higher-ranking job code than the requestor, approves the voucher. A critical step in properly maintaining a cash fund is periodic reconciliation. An independent review will help to ensure that transactions have been correctly recorded. Chapter 15 discusses that in accordance with the provisions of the California Government Code, the county cancels warrants that are not presented for payment within six months from issue date. And Chapter 9 explains how all checks must include the following: be pre-numbered, be imprinted with the official bank account title, and display the words "Void six months from issue date."

The following conditions were disclosed during our review:

- The Fiscal Assistant issues the cash and maintains the records, and the Accountant I completes the reconciliations.
- The department uses printed text from an office document as a signature and does not always get an ink signature from the claimant.
- There were three claims tested and each had a signature missing. Two were missing the claimant signature, all were missing the cashier signature and two were missing proper approval. On the two exceptions that were missing proper approval, it appears that the fund custodian is the person authorizing the transaction.
- There was no documentation of the review by management of the checking account reconciliation.
- There are three checks outstanding that should have been stale dated in the Petty Cash checking account and the face of the checks does not read "Void six months from issue date."

The risk of misappropriation of cash assets increases if management does not separate the duties of maintaining recording and reconciling cash receipts; obtain appropriate signatures for transaction; document review of monthly reconciliations. In addition, because banks do not honor checks dated over six months, the department's records do not represent what is actually outstanding.

**Recommendation:**

We recommend that management segregate the cash handling and bookkeeping duties. For example, one employee should handle everything associated with custody of cash (collecting cash receipts and preparing deposits), another employee should handle accounting for the cash (recording) and another employee should handle reconciling the cash and transactions. We also recommend that management require signatures for each petty cash voucher from the claimant, authorizing individual, and custodian. Further, we recommend that department document any reviews completed. To finish, we recommend that the department stale date any check that has not been presented for payment within six months of the issue date and include the phrase "Void six months from issue date" on the face of their checks.

**Management's Response:**

The fund custodian (Fiscal Assistant) will be responsible for the custody of cash and the Fiscal Specialist will be responsible for keeping the checkbook register. The Accountant will continue to be responsible for the reconciliations which will include the Section Managers review and initials. In addition, each petty cash voucher will include signatures from the claimant, Section Manager (as the authorizing individual) and the fund custodian. The department will stale date any check after six months of the issue date. All checks will include "Void six months from issue date" on the face of the check.

**Auditor's Response:**

The Department's planned actions will correct the deficiencies noted in the finding.

**Finding: Revolving fund incorrectly closed and cash transferred to revenue account.**

According to the ICCM Chapter 4 the department should complete a "Request to Decrease or Close a Cash Fund" and a Deposit Permit (CR-A) form and submit the request and the deposit permit to the ACR Internal Audits Section. The department created a journal voucher incorrectly posting the revolving fund closure to revenue. The department did not follow the ICCM procedures for decreasing or closing a cash fund. Because the department did not correctly account for their revolving fund, revenues and cash have been overstated.

**Recommendation:**

We recommend that in the future the department complete a "Request to Decrease or Close a Cash Fund" and complete a Deposit Permit (CR-A) form to deposit the amount of the reduction into the County Treasury using the department's normal deposit procedures. Leave the revenue source code blank. Send the request and the deposit permit to the ACR Internal Audits Section.

**Management's Response:**

The department agrees with this recommendation.

**Auditor's Response:**

The Department's response will address all future cash fund closures now that they are aware of the issue.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

**Larry Walker**

Auditor/Controller-Recorder

By: \_\_\_\_\_  
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